Commerce Bank
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January 16, 2004

Ms. Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th and C Streets, N.W.
Washington D.C. 20551
Regs.comments@federalreserve.gov

Re: Docket No. OP-1164

Re: Federal Reserve Bank Currency Recirculation Policy

Commerce Bank, N.A. is an affiliate of Commerce Bancshares, Inc. (NASDAQ: CBSH), a $14.3 billion regional bank holding company. For more than 135 years, Commerce has been meeting the financial services needs of individuals and businesses. Commerce provides a diversified line of financial services, including business and personal banking, wealth management and estate planning, and investments through its affiliated companies. Commerce Bancshares operates in approximately 330 locations across Missouri, Kansas, and Illinois and also has operating subsidiaries involved in mortgage banking, credit related insurance, venture capital and real estate activities.

Commerce appreciates the opportunity to comment on the proposed new recirculation policy. Our comments center on the following issues:

- **The definition of cross shipping is too stringent**
- **The benefit to the U.S. Treasury from seignorage is not considered**
- **The risks and costs to financial institutions of the Custodial Inventory program are underestimated**

The definition of cross shipping is too stringent

Defining cross shipping as ordering or depositing the same denomination within 5 business days does not reflect the realities of order lead times and transportation schedules. In practical terms, banks must maintain intervals up to two full weeks between ordering and depositing the same denomination to avoid cross shipping.

Example 1: In metropolitan St. Louis, currency that is shipped by a financial institution on Monday arrives at the Federal Reserve on Tuesday. To maintain a 5 business day interval between shipping and ordering, the bank would have to wait until the following Wednesday to order that same currency. The bank would be charged on Thursday and receive the currency on Friday. The real minimum interval to avoid cross shipping in this real example is 8 business days.

Example 2: In western Kansas, armored car shipments are only available 1 day per week.
Assume that day is Wednesday. If the financial institution shipped currency on the 1st Wednesday of the month, the currency would arrive at the KC Federal Reserve on Thursday. In order to receive currency on the 2nd Wednesday, the order must be placed at least one day prior, which would be only 3 business days following the prior shipment. To avoid cross shipping, the bank would have to delay ordering until the following week, and not receive the order until the 3rd Wednesday. The real minimum interval to avoid cross shipping in this real example is a full 10 business days.

The net result of the definition is that a bank must either be a buyer or seller of currency. For all practical purposes any currency shipped by a net buyer of a denomination would be considered cross-shipped, as would any currency ordered by a net seller of a denomination.

We recommend that that definition of cross shipping be changed to 3 business days.

The benefit to the U.S. Treasury from seignorage is not considered

Banks that do not take advantage of the Custodial Inventory program and wish to avoid cross shipping fees would incur an increase in average cash balances. This increase in currency in circulation would increase the earnings passed to the U.S. Treasury. The proposal does not address or disclose the impact of the revised Currency Recirculation Policy on the level of currency in circulation and the financial impact to the U.S. Treasury.

We recommend that anticipated impact on the amount of currency in circulation be disclosed, as well as the financial impact any increase or decrease would have on earnings to the Federal Reserve and the U.S. Treasury.

The risks and costs to financial institutions of the Custodial Inventory program are underestimated

Large banks that have the required infrastructure already in place may have limited additional costs. Banks without the vault space, cameras, and additional security measures required by the increase levels of cash and by the Federal Reserve mandated security measures, would have to invest millions of dollars to support holding more currency. Additional costs would also be incurred due to increased liability insurance premiums.

The additional risks to reputation from publicity and potential harm to employees as a result of theft or robbery of the increased currency amounts held by a bank is hard to quantify, but definitely a consideration.

Based on the anticipated cost to comply, Commerce Bank does not anticipate participating in the Custodial Inventory program.

We recommend that the anticipated costs banks must incur to avoid cross shipping fees be reassessed.

We appreciate the opportunity to comment.

Sincerely,

Steve A. Mueller
Senior Vice President
Commerce Bank, N.A.